Cabletel Communications Corp. Annual Report 1997

Profile

Cabletel Communications is growing rapidly as Canada's leading distributor of broadband communications equipment for the cable television and communications industries. Through acquisitions, strategic alliances and other arrangements, Cabletel regularly adds highest quality product lines. The Company now supplies over 10,000 products used to build, maintain and upgrade cable television and telecommunications systems. Cabletel shares are listed and trade on both the Toronto and American Stock Exchanges. Symbol: TTV

Selected Financial Information

Canadian dollars in thousands, except per share amounts Years ended Dec. 31	1997	1996	1995	1994	1993
Operations					
Net Sales	$ 53,706	58,725	44,016	48,302	34,056
Net Income (Loss)	*(589)	989	622	1,485	328
Financial Position					
Total Assets	28,756	36,125	15,871	17,048	11,733
Net Income (Loss) per Share	$ (0.09)	0.19	0.14	0.37	0.11

*after $1,054,000 restructuring charges

To Our Shareholders

The cable television industry continued to expand on several fronts in 1997, although a flurry of installation and maintenance activity in the first quarter of the year tailed off in later quarters as providers cautiously wrestled with converging markets for new and developing technologies in cable, telephony and wireless systems. For 25 years Cabletel's success and expansion has resulted from its sensitivity to shifting technologies, commitment to service and the challenge of change. Early recognition of the downturn in industry activity allowed your Company to make immediate critical adjustments for the future.

Reducing work staff by 15% had the direct result of a 13% decrease in expenses for sales, administration and general activities. A focused, and continuing, reduction of overhead costs in 1997 has improved the Company's ability to generate operating profits on upturns in sales. A major initiative to reduce inventory in five national warehouses resulted in reduced bank debt. A computer-driven freight management system was implemented, trimming operational costs for both the Company and its clients.

Our Stirling Connector division shipped the first 100,000 units of its newly developed premium connector to one of the largest cable system operators in the United States.

To further strengthen the corporate backbone of Cabletel, Ron Eilath and Douglas Shaddock joined the Company. Vice President of Finance Ron Eilath brings over nine years of public company management experience.

Registered as a Chartered Accountant in Canada and a Certified Public Accountant in the United States, Mr. Eilath's expertise comprises strategic business planning, financial management and control.

Vice President, Sales, Douglas A. Shaddock came to Cabletel from his role as Vice President, Sales and Marketing, for PCS Networks, having advanced through sales and marketing positions with Northern Telecom Ltd.

His telecommunications industry experience will enhance sales efforts and broaden marketing capabilities.

As well, staff with extensive knowledge of telephony were hired, increasing Cabletel's abilities to expand market focus. To further enhance Cabletel's product offering in preparation for entering new markets product distribution agreements were solidified with Barco Corp., Foxcom, Reltec and VINA Technologies.

Financial

Despite the decline in the second half sales revenues, a positive operating cash flow equivalent to $0.03 per share was achieved for the full year.

Consolidated net sales in 1997 were down 9% at $53,705,528. The $1,045,000 of restructuring charges was a major factor in the reported consolidation net loss of $589,000, compared with income of $989,000 in the previous year.

The balance sheet has been improved significantly, reflecting a $3.4 million (41%) decrease in bank indebtedness and a 19% decline in inventories.

With successful and ongoing reduction of operating costs and a strengthened balance sheet, a solid financial base places your Company in a strong position to exploit broader market opportunities and resume growth.

Directors' Report

Outlook

Cabletel aggressively continues to seek an expanded market base while remaining dedicated to the cable television industry and to providing materials for installation, maintenance and testing from the "head end", or signal source, to the home user. Over 7.6 million homes subscribe to cable television in Canada. With viable competition from telephone-based and wireless systems, this country's cable television industry is committed to providing renewal and upgrading of existing facilities and to purchase new technologies offering an increased range of services.

Cabletel strives to supply new products to meet customers' needs, to amplify its competitiveness and capitalize on its strategically located network of distribution warehouses across Canada. A number of market-exclusive agreements will refine inventory to better supply cable television clients and extend our reach to new customers for telecommunication, telephony and wireless systems.

As the industry moves toward digital transmission, we have added to our product offerings the high quality signal processing products manufactured by Barco Corp., a global equipment company. We are especially pleased with an agreement to distribute Reltec Canada's electrical protective equipment, demonstrating your Company's ability to leverage an existing CATV equipment relationship into potential new Telco sales.

Pursuing opportunities for growth of sales to cable television, telecommunications, telephony, data transmission and major electrical contracting industries is a natural activity, borne out of the convergence of enhanced and competitive services provided by each industry.

Cabletel is committed to continuing its diversification program and expanding its business to provide products and services to related industries. By enriching our staff expertise in areas such as Telco, power and electrical and continuously optimizing our inventory to serve existing clients and supply a broader range of potential customers, Cabletel is in the best position in its 25-year history to serve a consolidated cable television industry, to extend its reach into new markets and to remain foremost among many competitors.

We express appreciation to our associates in both Cabletel and Stirling for their continuing efforts, and to our suppliers, customers and shareholders for their ongoing support.

On behalf of the Board

Sheldon M. Rittenberg,
President,
Chief Executive Officer
April 15, 1998

Arnold S. Tenney,
Chairman

Year Ended December 31, 1997

Liquidity and Capital Resources

During the year ended December 31, 1997, bank indebtedness decreased $3,404,702 to $4,921,309, mainly due to reductions in inventory which amounted to $2,597,547 and earning cash flow of $287,746.

Cash provided by operations was $4,469,739 with reductions in inventory and accounts receivable which together provided $7,088,770, offset mainly by reductions in accounts payable and income taxes of $2,947,595.

The lower levels of inventory reflected steps taken by the company to reduce its bank indebtedness while maintaining a high level of customer service. Reductions in accounts receivable and accounts payable were reflective of reductions in business.

Due to related parties decrease by $614,167 as a result of the payment of the amount due to ANTEC in 1997.

The Company has no material commitments for capital expenditures.

The Company believes its lines of credit are adequate for its current needs. Each of Cabletel and Stirling has operating lines of credit available from a Canadian chartered bank of up to $7.5 million and $400,000, respectively. Each facility is renewed on an annual basis on April 30 of each year, bears interest at rates ranging from prime plus 0.60% to prime plus 1.00% and is secured by general assignments of book debts and inventory, demand debentures in the amount of $7.9 million in the aggregate constituting a first fixed and floating charge on certain assets and a second fixed and floating charge on the land and building, and assignments of insurance. Cabletel and Stirling amalgamated January 1, 1998.

Seasonality

Generally, the Company's business exhibits a moderate level of seasonality as sales of its products typically increase during the second and third quarters, due primarily to weather conditions in Canada.

Inflation

The Company believes that the relatively moderate rates of inflation in recent years have not had a significant impact on its net revenues or profitability. Historically, the Company has been able to offset any inflationary effects by either increasing or improving cost efficiencies.

Year 2000

During 1997, the Company developed a plan to deal with the Year 2000 problem and began converting its computer systems to be Year 2000 compliant. The plan provides for the conversion efforts to be completed by the end of 1998. The Year 2000 problem is the result of computer programs being written using two digits rather than four to define the applicable year. The total cost of the project is being funded through operating cash flows. The Company is expensing all costs associated with these systems changes as the costs are incurred. As of December 31, 1997 an immaterial amount has been expensed and the total estimated costs of the Year 2000 problem is expected to be immaterial.

Recent Accounting Pronouncements

In June of 1997, the FASB issued Statement No. 130, "Reporting Comprehensive Income" which establishes standards for the reporting and display of comprehensive income and its components. The Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be displayed in the financial statements with the same prominence as other financial statements.

Also in June of 1997, the FASB issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information", which establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires these enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers.

Management is currently evaluating the provisions of these statements to determine its impact upon current reporting. Both SFAS No. 130 and SFAS No. 131 must be adopted by the Company by the fiscal year beginning January 1, 1998.

Year Ended December 31, 1996

During the year ended December 31, 1996, bank indebtedness increased $5,017,005 to $8,326,011. Net assets acquired from ANTEC amounted to $4,776,229 and goodwill of $8,450,389 was also acquired. Share offering of $8,969,526 offset the cash requirement for the acquisition. The company increased capital assets by $450,872 and reduced long-term debt by $572,417.

Cash provided by operations was $327,376 with increased inventory and reduced accounts payable, which together used $2,935,465, was offset by earnings including amortization of $1,689,929 and reduction of accounts receivable of $1,112,476. The changes in assets and liabilities do not include charges from the purchase of ANTEC as they are included in the net assets acquired.

The higher levels of inventory reflected efforts by the company to maintain customer service during the early period following the acquisition of ANTEC. Reduced accounts receivable and accounts payable were reflective of reductions in the combined business due to excluded product lines.

Long-term indebtedness including the current portion thereof decreased by $572,417 to nil during the year ended December 31, 1996 as the mortgage payable was repaid. Due to related parties including current portion declined by $64,000 to $1,271,167. This amount was incurred to assist the Company in paying management fees to ARC. The amounts outstanding are non-interest-bearing notes due to ANTEC Corporation, which were incurred to provide part of the financing of the acquisition. The notes are payable as follows: $657,000 in August 1997 and $614,167 in August 1998. The $1,335,167 was repaid to ARC in part for cash ($62,500) with the balance exchanged for 165,153 shares of common stock of the Company.

The Company has no material commitments for capital expenditures.

The Company believes its lines of credit are adequate for its current needs. Each of Cabletel and Stirling has operating lines of credit available from a Canadian chartered bank of up to $12 million and $400,000, respectively. Each facility is renewed on April 30 of each year, bears interest at rates ranging from prime plus 0.60% to prime plus 1.00% and is secured by general assignments of book debts and inventory, demand debentures in the amount of $12 million in the aggregate constituting a first fixed and floating charge on certain assets and a second fixed and floating charge on the land and building, and assignments of insurance.

Years ended December 31, 1997 and December 31, 1996

Results of Operations

Sales of $53,705,528 for the year ended December 31, 1997 reflect a decrease of $5,019,509 or 8.5% as compared to the year ended December 31, 1996. The decrease reflects weaker capital spending by Canadian cable operators.

Gross profit as a percentage of sales for the year ended December 31, 1997 was 16.9% as compared to 16.6% for the year ended December 31, 1996. The increase in the gross margin is a function of a change in product mix to higher margin products.

General and administrative expenses increased approximately $937,973 for the year ended December 31, 1997 as compared to the year ended December 31, 1996. The Company has made a diligent effort to continue to control operating costs in light of decreased revenues due to weaker spending by Canadian cable operators while maintaining its operating infrastructure.

Amortization increased $294,136 to $891,646. The increase was attributable to higher goodwill amortization from the ANTEC acquisition ($540,000) with the balance from continued depreciation of expanded computer capacity.

Interest increased $73,756 to $369,861 due to higher borrowings at the beginning of the fiscal year in addition to higher interest rates than in 1996.

Income taxes recovered for the year ended December 31, 1997 of $386,600 represents a tax rate of 51.4%. The rate of 51.4% reflects the effect of amortization of goodwill being deductible only to 75% of the amount and the effects of lower rates on the deductibility of losses in the manufacturing division.

Years Ended December 31, 1996 and December 31, 1995

Sales of $58,725,037 for the year ended December 31, 1996 reflect an increase of $14,708,844 or 33% as compared to the year ended December 31, 1995. The increase reflects stronger capital spending by Canadian cable operators as they strive to increase cable capacity to accommodate additional channel selections, upgrade existing networks using fiber optic technology, prepare for competition from other broadcast technologies and make capital improvements to existing systems. The ANTEC acquisition which was completed August 29, 1996 contributed to higher activity levels during the fourth quarter.

Gross profit as a percentage of sales for the year ended December 31, 1996 was 16.6% as compared to 17.4% for the year ended December 31, 1995. The decrease in the gross margin is a function of a change in product mix to lower margin products and sales volumes having increased the price competition.

General and administrative expenses increased approximately $1,082,110 for the year ended December 31, 1996 as compared to the year ended December 31, 1995. However, as a percentage of sales, such expenses decreased to 11.5% in the year ended December 31, 1996 from 12.9% in the year ended December 31, 1995. The Company has made a diligent effort to continue to control operating costs in light of increased operating activities. Selling general and administrative expenses included approximately $200,000 in non recurring expenses related to the integration of the ANTEC operations with those of the existing Cabletel business. The higher costs reflected increased staff necessary to accommodate the broadened product lines as well as the increased physical activity. In addition to staff increases the company expanded its distribution capacity in both British Columbia and Ontario.

Amortization increased $309,249 to $597,510. The increase was attributable to higher goodwill amortization from the ANTEC acquisition ($180,000) with the balance from continued depreciation of expanded computer capacity.

Interest on long-term debt was lower by $163,947 to $63,660. Repayment of the mortgage outstanding and the conversion of the amounts due to ARC into common shares were the causes of the lower loan amount.

The other interest reduced $39,349 to $296,105 was achieved by lower borrowings prior to the ANTEC acquisition and the lower interest rates available during 1996.

Income taxes charged for the year ended December 31, 1996 of $1,047,500 represents a tax rate of 51.4%. The rate 51.4% reflects the effect of amortization of goodwill being deductible only to 75% of the amount and the effects of lower rates on the deductibility of losses in the manufacturing division.

Auditors' Report

To the Shareholders and the Board of Directors of Cabletel Communications Corp.

We have audited the consolidated balance sheets of Cabletel Communication Corp. as at December 31, 1997 and 1996 and the consolidated statements of operations and deficit and changes in financial position for the years ended December 31, 1997, 1996 and 1995. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years ended December 31, 1997, 1996 and 1995 in accordance with accounting principles generally accepted in Canada.

Kraft, Rothman, Berger, Grill, Schwartz & Cohen

Kraft, Rothman, Berger, Grill, Schwartz & Cohen
Chartered Accountants
Toronto, Ontario
January 24, 1997

Consolidated Balance Sheets

Canadian dollars December 31,	1997	1996
Assets		
Current		
Accounts receivable (net of allowance of $201,643; 1996 - $205,669)	$ 7,332,784	$ 11,824,007
Inventory (Note 3)	10,911,161	13,508,708
Income taxes recoverable	156,107	–
Prepaid expenses and other	97,690	138,508
Deferred income taxes	90,000	90,000
	18,587,742	25,561,223
Capital (Note 4)	1,872,600	1,905,824
Deferred Income Taxes	588,742	388,000
Goodwill (net of amortization of $743,359; 1996 - $180,000)	7,707,030	8,270,389
	28,756,114	36,125,436
Liabilities		
Current		
Bank indebtedness (Note 5)	4,921,309	8,326,011
Accounts payable	8,898,310	11,484,996
Accrued liabilities	448,424	36,525
Income taxes	–	616,701
Due to related parties (Note 6)	686,659	657,000
	14,954,702	21,121,233
Due to Related Parties	–	614,167
	14,954,702	21,735,400
Shareholder's Equity		
Capital Stock (Note 7)		
Authorized		
Unlimited First preferred shares, issuable in series		
Unlimited Common shares		
Issued		
6,495,112 Common shares	14,677,245	14,677,245
Deficit	(875,833)	(287,209)
	13,801,412	14,390,036
	$ 28,756,114	$ 36,125,436

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:

Sheldon M. Rittenberg, Director **Jeff Chelin, Director**

Consolidated Statements of Operations and Deficit

Canadian Funds For the years ended December 31,	1997	1996	1995
Sales	$ 53,705,528	$ 58,725,037	$ 44,016,193
Cost of Sales	44,605,230	48,970,969	36,379,355
Gross Profit	9,100,298	9,754,068	7,636,838
Expenses			
Selling, general and administrative	7,698,523	6,760,550	5,678,440
Restructuring charges (Note 9)	1,045,000	–	–
Amortization	891,646	597,510	288,261
Interest on long-term debt	70,492	63,660	227,607
Interest – other	369,861	296,105	335,454
	10,075,522	7,717,825	6,529,762
Earnings (Loss) Before Income Taxes	(975,224)	2,036,243	1,107,076
Income taxes (recovered) (Note 10)	(386,600)	1,047,500	485,000
Net Earnings (Loss) for the Year	(588,624)	988,743	622,076
Deficit, beginning of year	(287,209)	(1,275,952)	(1,898,028)
Deficit, end of year	(875,833)	(287,209)	(1,275,952)
Earnings (loss) per share (Note 11)	$ (.09)	$ 0.19	$ 0.14

See accompanying notes to consolidated financial statements.

Consolidated Statements of Change in Financial Position

Canadian Funds For the years ended December 31,	1997	1996	1995
Operating Activities			
Net earnings (loss) for the year	$ (588,624)	$ 988,743	$ 622,076
Imputed interest	70,492	28,167	–
Deferred income taxes recovered	(200,742)	(83,000)	(35,000)
Amortization	1,006,620	701,186	377,468
Changes in Assets and Liabilities			
Accounts receivable	4,491,223	1,112,476	150,624
Inventory	2,597,547	(1,177,094)	1,310,373
Prepaid expenses and other	40,818	(46,605)	(10,084)
Accounts payable and accrued liabilities	(2,174,787)	(1,758,371)	(453,646)
Income taxes	(772,808)	590,041	(707,805)
	4,469,739	355,543	1,254,006
Financing Activities			
Due to related parties	(655,000)	(92,162)	(625,000)
Long-term debt	–	(572,417)	(7,180)
Share offering (net of deferred taxes)	–	8,969,526	–
	(655,000)	8,304,947	(632,180)
Investing Activities			
Purchase of capital assets	(410,037)	(450,872)	(617,119)
Goodwill acquired	–	(8,450,389)	–
Net assets acquired	–	(4,776,229)	–
	(410,037)	(13,677,490)	(617,119)
Change in Funds	3,404,702	(5,017,000)	4,707
Funds, beginning of year	(8,326,011)	(3,309,006)	(3,313,713)
Funds, end of year	$ (4,921,309)	$ (8,326,006)	$ (3,309,006)

Funds are defined as cash on hand less bank indebtedness.

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which, except as described in Note 14, conform, in all material respects, with the accounting principles generally accepted in the United States.

a. Basis of Consolidation

The consolidated financial statements include the accounts of the wholly-owned subsidiary, Stirling Connectors Inc. ("Stirling").

b. Inventory

Inventory is valued at the lower of cost (first-in, first-out) and net realizable value. Cost includes appropriate elements of duty, freight, material, labour and overhead.

c. Capital Assets

Capital assets are recorded at cost. Amortization is being provided for over the estimated useful life of the asset on the straight-line basis at the following annual rates:

Building	– 5%
Plant and equipment	– 20 – 50%

d. Foreign Currency Translation

The company does not have non-monetary assets and liabilities denominated in foreign currency.

Monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rate, while foreign currency revenues and expenses are translated at the exchange rate in effect on the date of the transaction. Resulting exchange loss of $35,021 (1996 - loss of $43,155; 1995 - gains of $22,037) are included in income.

e. Goodwill

Goodwill is stated at cost less accumulated amortization on a straight-line basis over the estimated useful life, being 15 years. The management determines the potential permanent impairment in value of goodwill and its estimated useful life annually, based on estimation of fair value.

f. Deferred Income Taxes

Deferred income taxes are provided for differences in the timing of reporting income and expenses for financial statement reporting and income tax purposes.

2. Acquisition of ANTEC Canadian Distribution Business

On August 29, 1996, Cabletel acquired the Canadian distribution business of ANTEC Corporation ("ANTEC"). The purchase has been accounted for by the purchase method and as such results of operations for this business have been included for the period beginning August 30, 1997. The acquisition was achieved by a combination of cash and shares as noted below.

Net assets acquired	
Total current assets	$11,677,384
Total liabilities	(7,083,627)
Other	182,472
	4,776,229
Goodwill (15 year amortization)	8,450,389
	$13,226,618

Consideration given	
Cash – ANTEC	$ 4,593,359
Term notes	1,238,000
Common shares to ANTEC	6,108,488
Common shares to ARC	1,286,771
Total	$13,226,618

The common shares issued to Cabletel's majority shareholder, ARC International Corporation ("ARC") as part of the transaction were part of a series of transactions where Cabletel issued shares to ARC in exchange for cash and this cash was then paid to ANTEC where it was then invested in 500,000 ARC shares.

As part of the transaction, ARC converted its term debt into common shares of Cabletel (Note 7).

Assuming the acquisition had taken place at the beginning of 1995 and 1996, the unaudited pro forma condensed consolidated results of operations for the periods noted would have been as follows.

	1997	1996
Revenue	$80,954,028	$70,448,205
Net income	704,133	436,681
E.P.S.	.11	.08

The unaudited pro forma financial information presented is not necessarily indicative of the results of operations that would have occurred had the acquisition been effective at the beginning of the respective periods.

3. Inventory

	1997	1996
Raw material	$ 234,874	$ 370,940
Work in process	428,858	390,941
Finished goods	10,247,429	12,746,827
	$10,911,161	$13,508,708

4. Capital Assets

	1997		
	Cost	Accumulated Amortization	Net
Land	$ 248,700	$ –	$ 248,700
Building	1,102,269	418,781	683,488
Plant and equipment	2,952,300	2,011,888	940,412
	$ 4,303,269	$ 2,430,669	$ 1,872,600

	1996		
	Cost	Accumulated Amortization	Net
Land	$ 248,700	$ –	$ 248,700
Building	914,478	355,218	559,260
Plant and equipment	2,730,054	1,632,190	1,097,864
	$ 3,893,232	$ 1,987,408	$ 1,905,824

5. Bank Indebtedness

The bank indebtedness consists of overdraft accounts, bears interest at prime plus .6% to .85% per annum (December 31, 1997 – 6.60% to 6.85% per annum) and is secured by general assignments of book debts and inventory, demand debentures in the amount of $12,000,000 in the aggregate constituting a first fixed and floating charge on certain assets of the company and assignments of insurance. The weighted average interest rate was 7.45% (1996 – 6.49%; 1995 – 8.96%).

6. Due to Related Parties

In 1996, the Company repaid the amount due to ARC via cash of $62,500 and issue of 165,153 ($1,272,667) common shares.

As part of the ANTEC acquisition (Note 2), the Company issued two non-interest bearing notes as follows.

	1997	1996
Due August 31, 1997 (U.S. $500,000)	$ –	$ 685,000
Due August 31, 1998 (U.S. $500,000)	715,000	685,000
	715,000	1,370,000
Less: Imputed interest	(28,341)	(98,833)
	$ 686,659	$ 1,271,167

7. Capital Stock

	Number	Amount
Balance, January 1, 1995 and December 31, 1995	4,575,000	$ 5,707,719
Issued during 1996 pursuant to:		
Exercise of options	70,000	301,600
Acquisition (Note 2)	1,684,959	7,395,259
Exchange of long-term debt (Note 6)	165,153	1,272,667
	1,920,112	8,969,526
Balance, December 31, 1996 and 1997	6,495,112	$14,677,245

Common shares have been reserved for stock options on the following basis.

	Shares	Option Price $
Outstanding and exercisable		
at December 31, 1995	650,000	4.00 – 5.00
Granted – 1996	310,000	4.00 – 8.55
Exercised	(70,000)	4.00 – 5.44
Cancelled	(75,000)	4.00
Balance at December 31, 1996	815,000	4.00 – 8.55
Granted – 1997	275,000	4.43 – 7.69
Cancelled	(245,000)	4.00 – 5.72
Balance at December 31, 1997	845,000	4.00 – 8.55

8. Related Party Transactions

The Company is party to certain agreements and transactions in the normal course of business with its parent company. Significant related party transactions not disclosed elsewhere include:

	1997	1996	1995
Management fees to parent company	$ 300,000	$ 351,000	$ 332,550
Interest incurred with respect to the advances referred to in Note 6	70,492	106,395	164,308

9. Restructuring Charges

In connection with the acquisition of ANTEC business (Note 2), the Company consolidated its operating activities, resulting in a write-down of certain inventory and severance payments associated with reduction in the Company's work force.

10. Income Taxes

The consolidated provision (benefit) for income taxes consists of:

	1997	1996	1995
Current – Federal	$ (114,158)	$ 753,000	$ 337,000
– Provincial	(71,700)	377,500	183,000
Deferred – Federal	(108,480)	(55,000)	(25,000)
– Provincial	(92,262)	(28,000)	(10,000)
	$ (386,600)	$ 1,047,500	$ 485,000
Statutory rate	44.6%	44.6%	44.5%
Income taxes at statutory rate	$ (434,900)	$ 908,165	$ 490,435
Items non-deductible for income tax purposes and other	48,300	48,335	87,565
Effect of lower tax rates of manufacturing losses	–	91,000	–
Recovery of wholly-owned subsidiary's losses carry-forward	–	–	(93,000)
Income tax expense	$ (386,600)	$ 1,047,500	$ 485,000

11. Earnings Per Share

a. Basic Earnings per Share

The weighted average number of shares outstanding amounted to 6,495,112 for the year ended December 31, 1997 and 5,249,204 and 4,575,000 for the years ended December 31, 1996 and 1995, respectively.

b. Fully Diluted Earnings per Share

For purposes of calculating the fully diluted earnings per share, the earnings applicable to common shares were increased by the savings on the interest expense on the debt which would have been reduced by the cash received on the exercise of the options. The exercise of options had no dilutive effect on earnings per share for the years ended December 31, 1997, 1996 and 1995.

12. Commitments

a. Commitments for leased premises and certain contracts have been made as follows:

1998	$ 629,702
1999	557,472
2000	533,068
2001	293,586

b. The company has an employment contract with certain key officers and a management contract with the parent company.

13. Financial Instruments

a. The company and its subsidiary are engaged primarily in the sale of a highly diversified line of telecommunication products principally in Canada. The company performs ongoing credit evaluation of its customers' financial condition and, generally, requires no collateral from its customers.

b. The carrying amounts reflected in the consolidated balance sheets for accounts receivable, accounts payable and accrued liabilities approximate the respective fair values due to the short maturities of those instruments.

The fair values for long-term debt and due to parent company do not differ materially from the carrying values recorded in the consolidated balance sheets due to the terms and interest rates reflecting existing market conditions and in the case of the amounts due to ANTEC, the imputing of interest.

14. United States Accounting Principles

a. The U.S. GAAP requires a statement of cash flows as opposed to a statement of changes in financial position, in addition, under Canadian GAAP, bank indebtedness forms a part of cash equivalents for purposes of the statements of changes in financial position. Under U.S. GAAP, changes in bank indebtedness represent financing activities. Changes in bank indebtedness amounted to $3,409,514 (1996 - $4,958,116; 1995 - $52,211).

Non-cash activities in 1996 included issue of notes and shares to ANTEC, $1,238,000 and $6,108,488, respectively, in exchange for acquisition of assets.

	1997	1996	1995
Cash provided by (used in) operating activities	$ 4,399,247	$ 327,376	$ 1,254,006
Cash provided (used in) by financing activities	(3,994,022)	5,944,737	(575,969)
Cash used in investing activities	(410,037)	(6,331,002)	(617,119)
Change in cash	(4,812)	(58,889)	60,918
Cash, beginning of year	9,994	68,883	7,965
Cash, end of year – U.S. GAAP	$ 5,182	$ 9,994	$ 68,883

b. Supplementary Information

	1997	1996	1995
Income taxes paid	$ 465,418	$ 580,459	$ 1,208,000
Interest paid	$ 369,861	$ 331,598	$ 533,550

c. Financial Accounting Standards No. 109, "Accounting for Income Taxes" requires the use of an asset and liability approach for financial accounting and reporting for income taxes. There would be no cumulative effect from the adoption of the statement, nor would the results of operations be different than those reported under Canadian GAAP. Under FAS 109, the company would have reported the following deferred tax assets and liabilities at December 31, 1997 and 1996:

	1997	1996
Deferred tax liabilities	$ –	$ –
Gross deferred tax assets	678,742	478,000
Valuation allowance	–	–
Deferred tax assets	678,742	478,000
Net deferred tax assets	$ 678,742	$ 478,000

d. Net earnings per share calculations under U.S. GAAP reflecting the Statement of Financial Accounting Standards No. 128 for the years ended December 31, 1997, 1996 and 1995 would be presented as follows.

	1997	1996	1995
Net earnings per share			
Basic	$ (0.09)	$ 0.19	$ 0.14
Diluted	$ (0.09)	$ 0.18	$ 0.13
Weighted average shares outstanding			
Basic	6,495,112	5,249,204	4,575,000
Diluted	6,607,168	5,488,517	4,832,824

e. Under the U.S. GAAP, the Company is required to disclose sales to customers in excess of 10%. Sales to customers that exceed 10% of total sales are listed below.

	1997	1996	1995
Rogers Cable Systems Limited	23.1%	17.9%	19.3%
Shaw Communications Inc.	10.3%	21.5%	18.0%
Videotron	8.42%	11.1%	6.8%

f. Accounting for stock options and pro-forma disclosures required under SFAS 123.

Issued by the Financial Accounting Standards Board in October, 1995, SFAS 123 establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. This statement defines a fair-value-based method of accounting for employee stock option or similar equity instruments, and encourages all entities to adopt that method of accounting for all their employee stock compensation plans. However, it also allows an entity to continue to measure compensation cost for those plans using the intristic value based method of accounting prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees. Entities electing to remain with the accounting in Opinion 25 must make pro-forma disclosures of net income and, if presented, earnings per share, as if the fair value based methods of accounting defined by SFAS 123 had been applied. SFAS 123 is applicable to fiscal years beginning after December 15, 1995.

The Company accounts for its stock options under Canadian GAAP, which, in the Company's circumstances are not materially different from the amounts that would be determined under the provisions of the Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its stock option plan. No compensation expense has been charged to the consolidated statement of operations for the plan for the years ended December 31, 1997 and 1996. Had compensation expense for the Company's stock-based compensation plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method under the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 "Accounting for Stock-based Compensation" ("SFAS 123"), the Company's net income and earnings per share would have been reported as the pro-forma amounts indicated in the table below. The fair value of each option grant was estimated on the date of the grant using the fair value recognition method, with the following assumptions: risk free interest rate of 6% dividend yield of 0%, theoretical volatility assumption of .40, no vesting provisions and the expected lives of options of three years.

Notes to Consolidated Financial Statements

	1997		1996		1995	
	As Reported	Pro forma	As Reported	Pro forma	As Reported	Pro forma
Net income (loss) – U.S. GAAP	$ (588,624)	$ (1,129,724)	$ 988,743	$ 624,533	n/a	n/a
Net earnings (loss) per share*						
Basic	(0.09)	(0.17)	0.19	0.12	n/a	n/a
Diluted	(0.09)	(0.17)	0.18	0.11	n/a	n/a
Weighted average fair value of options granted during this period	0.00	1.97	0.00	1.17	n/a	n/a

*Reflects the Statement of Financial Accounting Standards No. 128, which was adopted in the fourth quarter of 1997. "Basic" net income per share only includes shares outstanding in the calculation. "Diluted" net income per share includes options and warrants in the calculation. Prior periods' net income per share amounts have been restated to reflect this presentation.

Corporate Information

Officers

Arnold S. Tenney
Chairman

Sheldon M. Rittenberg
President,
Chief Executive Officer

Ron Eilath
Vice-President, Finance
Assistant Secretary

Jeffrey D. Chelin
Secretary-Treasurer

Directors

Jeffrey D. Chelin[1]

Ian S. Lurie[1,2]
Vice-President
Standard Radio Inc.
(broadcasting and communications)

M. David Prussky[1,2]
Partner, Patica Corporation
Investment Banking

Sheldon M. Rittenberg

Arnold S. Tenney[2]

James L. Faust
Executive Vice-President,
International ANTEC Corporation

Lawrence A. Margolis
Executive Vice-President,
Chief Financial Officer
ANTEC Corporation

Marshall S. Geller
Chairman, Chief Executive Officer and Founding Partner of Geller & Friend Capital Partners, Inc.

1. Member of the audit committee
2. Member of the compensation committee

Head Office

Cabletel Communications Corp.
120 Gibson Drive
Markham, Ontario
Canada L3R 2Z3
Telephone: (905) 475-1030

Subsidiary

Stirling Connectors Inc.
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Canada L3R 2Z3
Telephone: (905) 475-6920

Shares Traded

Toronto Stock Exchange
Symbol: TTV

American Stock Exchange
Symbol: TTV

Transfer Agents and Registrar

Montreal Trust Company
151 Front Street West
Suite 800
Toronto, Ontario
Canada M5J 2N1

Bank of New York
Church St. Station
New York, NY 10286
U.S.A.

Auditors

Kraft, Rothman, Berger, Grill, Schwartz & Cohen
Markham, Ontario
Canada L3R 3Y2

Bankers

Hongkong Bank of Canada

Counsel

Davies, Ward & Beck
Toronto, Ontario, Canada

Gordon, Altman, Butowsky, Weitzen, Shalov & Wein
New York, NY 10036 U.S.A.

Annual Meeting

The Annual Meeting of Shareholders will be held at 2:00 pm on June 23, 1998 in the Library Room of the Royal York Hotel.

Additional Information

For copies of annual and quarterly reports and the form 10K annual report filed with the U.S. Securities and Exchange Commission, write to:
The Secretary
Cabletel Communications Corp.
120 Gibson Drive
Markham, Ontario
Canada L3R 2Z3

CABLETEL
COMMUNICATIONS CORP.